

Wine Business Solutions



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## *The Key to Success*

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You can have a lot of fun, looking around online, when you ask this biggest of questions. More business books have been sold on this promise/premise, of course, than any other idea in history. Looking back, we can probably credit Socrates with the first widely promulgated answer.

A young man allegedly asked Socrates what the secret to success is. (I say 'allegedly' as we only have Plato's written account as 'fact-checking'). Socrates told the young man to meet him at the river the next morning. Socrates asked the boy to walk with him into the river. When the water reached their necks, Socrates grabbed the young man and pushed him underwater. He held him there until the boy was about to drown.

Socrates pulled his head out of the water and the young man gasped for air. Socrates asked, "What did you want the most just then?" The boy, of course, replied, "Air." Socrates said, "That is the secret to success. When you want success as badly as you wanted the air, then you will get it."

Parents these days, Joe Biden for (extreme) example, have the toughest of choices to make. Do I help my child or do I let them make their own mistakes and deal with the consequences? I daren't answer that one.

It's hard not to look at South African wine businesses today, however, and question whether the governments of developed nations did their people a favour by carrying them through COVID on cotton wool. No one wanted to own a South African wine business during COVID. But boy, lessons were learnt.

I find it amusing to watch Australia's best financial analysts tippy-toeing around this one. You know that the dots that they would love to join up, but are too afraid to on national television, are that the biggest constraining factor, in most developed economies today, is that people will not return to, or better, previous productivity levels. We would not be having this protracted discussion about interest rate reduction if they did. Harsh, perhaps, but not as harsh as Socrates. Or the South African government.

So, apart from cutting off people's 'air supply', which governments around the world are doing, to varying degrees, using interest rates, how do we produce the sort of fire and desire that leads to success?

And what else do we need? Clearly, Bashar al-Assad, Vladimir Putin and Adolf Hitler all had the fire. We can only take comfort in the truism that, paraphrasing Enoch Powell, 'all political careers end in failure'.

A better question, perhaps, is: - What does it take to be truly successful, to make everyone and everything around you better?

Well, I guess, I just did. Success is different, of course, for different people. It troubled me, however, when, for example, I was doing a strategic review for a client recently that, reading between the lines, their main measure of success was the esteem that the local winemaking and broader community held them in.

They were from a cultural background where what other people see and what they believe other people think, is very important. They were not French, in other words. It is always very dangerous, I believe, to let anybody else be the arbiter of how you feel about yourself and what you believe you are worth. Those people, invariably return a negative report card at some point. Hence all political careers ending in failure. Hence, bans on social media. Evoking *Invictus* – “You are the captain of your ship, the master of your soul.”

So, when you are defining your success, what are the most important questions to answer? When things appear too simple, then they probably are. When TV ads start mocking the generic strategic planning process, then you know there is an even bigger problem. But in all the years I have been doing this, these questions below remain, for me at least, the single most important ones to be asking, despite their simplicity.



We've all seen answers to these questions that are glib, generic, and not SMART (specific, measurable, achievable, relevant and time-bound). When I speak to other consultants, that is their most common complaint. I suggest to them that they are lucky to have clients who can be helped so easily. Fundamentally, these 'business school basics' questions are the most important ones to be asking. And answering.

It always intrigues me that some clients, usually with a farming background, are capable of painting an incredibly grim picture of the lot they face. I get it. I grew up on a farm. I still have my own mini-farming exercise in that we try to grow as much of our own food as we can. I know how merciless nature can be.

But then you go to that person's property and there is the new tractor, the new house and a whole new outlook on life. Perhaps they did listen after all. So, what is it that they are doing differently to those who struggle their whole life? What are their key secrets of success?

### 1. Curiosity.

I continued this discussion with my client. I was lamenting, somewhat, that when I started this business, it was to help those who needed help most. As time has gone on, however, it has tended to be those that need help least that are my clients. Happily, these are some of the best wine businesses on the planet.

He said, “Well I guess it’s like the good farmer who is always at field days, always asking questions, always looking to improve, always keeping an open mind.”

### 2. Reading

Someone is going around currently, I won’t say where, still doing what he did 20 years ago, (i.e. taking people’s money that he had no certainty of being able to repay). This, of course, is causing huge stress for the parties with whom he has been dealing. Vetting everyone you do business with is my simple advice here.

As the instructor for the business Turnaround Management Association of Australia (TMA)’s education program, I met the MD of the business arm of the bank that was making sure that they did not get further fleeced, the first time this same guy went spectacularly broke.

In the book “Why Nations Fail” its authors claim that it is the quality of decision-making by the leaders of their institutions, not geography, the hangover of imperialism, access to resources etc. It is exactly the same for business. As part of my TMA role, I looked into research involving thousands of companies that had failed. Over 85% of the time, management was to blame, not the economy, politics or other externalities.

My new MD friend, as an insolvency specialist, had seen many managers good and bad. When I asked him what the defining factor was, he said – “Their propensity to read.” You are reading this. I hope I add value.

### 3. Hard Work

You won't see any list of this type that does not include this one, particularly if it is published in the US. When you visit countries in North Africa where one-half of the population is not allowed to work and the other has to stop to pray five times a day (their choice and I respect that) then you can instantly see how far and how fast the US will sprint ahead and the simple reason for a massive divide that will only intensify.

The work-life balance thing is a big issue particularly if staff don't understand how fortunate they are in the global context. Australasians are twice as rich as Americans, for example, in terms of mode net worth. Per capita GDP doesn't mean much to the 'average' person if there is gross inequality. Just ask South Africans.

### 4. Focus

This, for me, is the defining quality. I have only very rarely come across either farmers or vigneron who could be accused of not liking hard work. The worst insult that you can hurl at someone in New Zealand culture, for example, is to call them a useless @\$#\$.

Someone afraid of hard work was, traditionally, the lowest of the low in NZ. We can think of guys like Ross Lawson (Lawson's Dry Hills) who made his money sheering and learned his influencer skills as a Union heavy as the embodiment of the sort of toughness that kicked off the New Zealand wine industry.

But 'working at what?' is the bigger question. The winners, as I have been at pains to point out using countless examples in these Papers, are those who have clarity and focus as to what their brand stands for, who it is for, what the experience is that that customer, trade and media want, how to deliver it, how to communicate their brand's promise at all levels as well as its uniqueness and how to measure 'success'.

They also have great clarity about what work they should be doing themselves and what work to have other people doing. Giving it a 'red hot go when you don't really know', is the legacy of trying too hard to be self-sufficient. If your lawnmower man earns more than you do, it's time to reconsider your profession.

### 5. Discipline

The real difference, in my observation, between those who do and those who don't (in the military, there is no 'tried') is having the discipline to stick to your stated core values and maintain the integrity of your brand at all costs. Most businesses I see failing are the ones without the strictest of brand disciplines, the ones who believe that the ideals of marketing must occasionally be compromised to affect a sale.

To demonstrate just how different results can be for wineries with similar revenue, let's now look at a couple of real-life examples. (Winery A) has some of the best brand discipline of the 350 businesses we have dealt with as clients versus a business (not our client) that has been placed into receivership twice due to poor commercial practices, in my view (Winery B). (Note that under the terms of WBS' DtC Benchmarking, WBS cannot disclose the identity of data providers. WBS would not do so in any case under duty of client care.)

As is often the case in the real world, not everything Winery A does is good and not everything Winery B does is bad. We have yet to encounter a business that manages all aspects of DtC to excellence.

	<b>Winery A</b>	<b>Winery B</b>
Cases	140,000	320,000
Revenue	\$ 22,607,000	\$24,500,000
Revenue / Case	\$ 161	\$ 77
DtC Cases	14,772	15,258
DtC Rev	\$ 6,870,712	\$ 3,480,693
DtC Rev / Case	\$ 465	\$ 228
Victors	Unknown	37,928
Cellar Door Sales	\$ 3,519,000	\$ 1,350,800
Cellar Door Sales / Visitor	\$ 88	\$ 36
Wine Club and DB Cases	3,973	4894
Wine Club and DB Rev	\$ 1,497,000	\$ 1,279,813
Wine Club and DB Rev per Case	\$ 377	\$ 262
Total DB	25,000	8,898
Sales per DB person	\$ 60	\$ 144
Web Sales Cases	2,853	585
Web Sales Rev	\$ 1,078,000	\$ 405,631
Web Sales Rev per Case	\$ 378	\$ 693
Restaurant Cases	600	
Restaurant Wine Sales Rev	\$ 776,712	
Restaurant Wine Sales Rev / Case	\$ 1,295	
Wedding and Event Cases		3548
Wedding and Event Revenue		\$ 444,450
Rev per Event Case		\$ 125.27

Things to note are as follows:

- I. (Winery A) has less than half the total production of Winery B but has almost the same revenue.

- II. The average case sales figure of \$161 for Winery A is what a highly brand-focused medium-sized (100-500,000 case) Australian wine business typically achieves versus the \$77 for Winery B which has been in constant distress consequent of chasing volume to fill a large winery built without market understanding. *Note - This is also roughly the same per case revenue figure as for a business that sent WBS helicopter tickets to its opening. No prizes for guessing what happened to that business.*
- III. In terms of DtC Revenue, Winery B sells the same number of cases but, again, at half the price.
- IV. Unbelievably, Winery A does not count visitors. Winery B uses a door counter which tends to overstate numbers. Charging for all tastings and keeping count is a simple, more accurate method. Given all the other metrics and what we know about the region within which it is located, it would seem unlikely that Winery A is seeing less than 3300 people per month. WBS has, therefore, used that number as a rough guide.
- V. Neither winery is managing Wine Club anywhere near optimally. That \$7Million total DTC figure for Winery A could easily be \$10Million. WBS has a client in another region of Australia, for example, of a similar size who, these days, has a much less well-known brand, that generates \$8Million in club and digital sales alone.
- VI. Winery A does have a 'Club', but it is unnecessarily secretive and complicated due to fear of upsetting trade and retail, in WBS' view. The cost of being too conservative.
- VII. Winery A is also only achieving \$60 in sales per database member. Winery B manages more than double that.
- VIII. Winery A, however, invests heavily in its website and social media and this drives over \$1Million in revenue, 2.5 times what Winery B achieves.
- IX. Winery B's average web case sales value, however, is almost double Winery A's.
- X. Winery A's restaurant is a very important part of its overall brand-building approach. Winery B prefers weddings and events which, unless highly brand-focused, have much less brand-building value.

This is probably the most important point/discovery resultant of this exercise – wine sold off a wine list in a high-end restaurant achieves 10 times the revenue as wine pushed out through events as distressed stock. Winery A's average per-bottle sale price in its restaurants reflects the average price on an Australian wine list (according to WBS data) of over \$A100 per bottle.



## 6. Integrity

This is where private companies (as opposed to those funded by private or public equity) will always have the advantage.

I have been the Managing Director of a publicly listed wine company and I can tell you that the discipline and rigour around corporate governance issues was extreme. No one is ever going to be able to blackmail me with any sort of ‘skeleton’ of any kind left in any kind of ‘closet’. We didn’t just do the right thing. We were the first business to hand land back to Māori, we started a university and I appointed Wine Marlborough’s first full-time CEO, things that had a profound effect on the future of the province.

The issue for non-private businesses generically, however, is not that they are ‘evil’ necessarily, as many seem to think, but that money will move like water to lower ground when more money is involved. Leaving the likes of Riverland (Australia) grape growers out in the cold. Some businesses have, however, handled this more ethically than others. But the flight of capital is what capitalism is all about, at its coldest heart.

As a private business, you have the choice. I have seen extremely bad behaviour on the part of the owners of family businesses, don’t you worry. There is nothing about being ‘family-owned’ that guarantees goodness. I have, on the other hand, had the great privilege of knowing the likes of Jose(p) Ferrer, grandson of the founder of Freixenet who passed recently just a few months shy of his 100<sup>th</sup> birthday.

There were so many dimensions to the integrity with which he operated. I recall that when I worked in Mergers & Acquisitions for Freixenet, we were looking to buy either Hardy’s or Southcorp (today TWE). Jose was more concerned with what a capital restructure would mean for his workers than he was with the potential money to be made so we bought a business (Wingara) out of cashflow instead.

For him, people were everything. He inspired the fiercest loyalty within his employees, his growers and his distribution channel partners. He treated all with the greatest respect and he thanked all of us, personally, when the inevitable yearly bonuses were paid out.

He even formed a “Board of Wisdom” which included all his sisters. Wise indeed. I recall telling him how a certain wine company in Marlborough (that ultimately failed) would screw its growers into the ground when they could with the expectation that they would do the same to them when given the chance. ‘This is not so smart’ he said to me in his inimitably gentle and gentlemanly style. And, indeed, it was the faith that he had with growers that enabled his business to have the consistent grape prices needed to grow the world’s largest sparkling wine brand. Doing the right thing doesn’t always have to come at a cost.

People always ask why I give away all this IP (their words, not mine) via this newsletter. The answer is simple. Giving pays. Not in any cynical way. If success is being happy and content with your achievements then that is impossible without other people and the best way to garner people's support is to be useful to them somehow.

That, of course, also describes politics but it is possible to do this in a way that enriches everyone and harms no one. We have clients that do that.

If we take Creation Wines, South Africa, for example,

- Their business supports over 100 children through grade school.
- They have staff who participate in exchange programs with Michelin-starred restaurants.
- They have community gardens that they and local communities source and benefit from.
- They run groundbreaking environmental programs.
- They work with scientists on developing leaf roll virus-resistant rootstocks that the whole country will benefit from.

And the list goes on...

Now you can look at this two ways – Is this self-serving or self-sacrifice? The answer, and this is the beauty, is both.

The last thing that you always see on these lists of what it takes to be successful is the freedom to fail, to learn, to improve and never give up.

Now, as one of my best clients said to me – “It seems that in order to make up for one bad decision in this business, you have to make nine right ones” So, do read. Do research carefully. And get good advice.

But it was the horror of having an antipathic government during COVID, that threw up horrific challenge after challenge to the point where the driving force behind Creation's success was their ability to face and overcome those challenges and to expect to have to overcome challenges as part of 'normal' everyday life.

We all must do that to get to where we want to go. If you need help with that, then please let us know. Merry Christmas everyone, and I hope I see you all in 2025.

## The “Top Ten Tips” for Building Better Wine Businesses.

**One** - Start by understanding your customer value proposition. Only part of this stems from your company’s unique heritage and/or personality. To be successful, this needs to be strongly linked to what your customers ultimately want from the experience of your brands. There is some excellent research on this that is publicly available. Getting it right is therefore not out of the reach of small companies.

**Two** - Once you understand what customers value most, you can then remove what they don’t want (thereby reducing costs and freeing up cash), focus your communication of what they do want (often at no additional cost), differentiate your company on the basis of fulfilling customer needs more accurately than any competitor (again, often at no extra cost) and raise prices (because your offering is more highly valued)

**Three** - Always be asking the question – “If I could start with a blank canvas today – what would our wine business look like?” It’s all too easy to let existing assets, existing product lines and existing ways of doing things blind us to what it is that our consumers value most. Often, it’s simplicity. Complexity usually adds to costs and often only serves to confuse customers. Retaining unnecessary or irrelevant product lines, assets or business processes is the worst contributor.

**Four** - Make everyone in the company accountable for securing customer preference. This is not just the job of marketing but of everyone in the company, the owner most particularly. Make this the focus of the way every employee innovates their job processes on a daily basis.

**Five** - Invest in relationships. This is particularly so with major distribution partners. Make sure sufficient time and money is invested before demanding results. Be prepared to invest up front in bringing them to your home base and entertaining them in order to build enduring friendships.

**Six** - Make all employees champions for profit. Develop a culture of honesty around net revenue. Make sure everyone knows the actual price achieved net of all discounts, rebates, bonus stock and anything else that might otherwise cloud the true profit picture. Keep them focused on reducing costs but let them know that a percentage increase in wine company revenue is, on average, twice as effective as the same percentage decrease in the cost of goods sold and 3-4 times as effective as the same percentage saving in operating expenses.

**Seven** - Optimise your pricing mix. Focus first on selling more, higher margin product in high value markets to high value customers. Beware of people in love with “big volume”. Big numbers make for big stories but often mean a lot of running around for no additional profit.

**Eight** - Build better business intelligence gathering systems – most companies are good at monitoring their own press. Very few have effective systems in place to monitor competitors, track changes in consumer preferences and turn customer feedback into customer value added.

**Nine** - Build 5-10 year Strategic Plans, forecast rolling 12-month budgets, link them to the most relevant KPIs and tie remuneration to these, wherever possible. Everybody knows they should do this. Few do. The difference in the performance of companies that do is enormous.

**Ten** - Watch your cashflow – building a cashflow forecast is a relatively easy exercise with the right software and some quality assistance. Some people survive years of losses, but you can only run out of cash once. In a cash hungry business, like wine – Cashflow is not just King but Oxygen.

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